

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**

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The Honorable David Blair, Elliott County Judge/Executive
Honorable Ronald Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

Independent Auditors' Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the Sheriff of Elliott County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide For County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting as described in Note 1.

The Honorable David Blair, Elliott County Judge/Executive
Honorable Ronald Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009, on our consideration of the Elliott County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2008-1 Condition: The Sheriff's Office Lacks Adequate Segregation of Duties

2008-2 Condition: The Elliott County Fiscal Court Did Not Set The Maximum Salary Amount For The Sheriff's Office

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Elliott County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

November 23, 2009

ELLIOTT COUNTY
RONALD STEPHENS, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES,
AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$	27,796	
Cabinet For Human Resources		160	
Sheriff Security Service		<u>1,475</u>	\$ 29,431

Circuit Court Clerk:

Fines and Fees Collected			10
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Fiscal Court			74,156
County Clerk - Delinquent Taxes			2,895
Commission On Taxes Collected			58,932

Fees Collected For Services:

Auto Inspections		1,370	
Accident and Police Reports		110	
Serving Papers		7,709	
Carrying Concealed Deadly Weapon Permits		<u>3,590</u>	12,779

Other:

Advertising Fees		1,290	
Sheriff's Add On Fees		10,690	
Bond Refunds		508	
Miscellaneous		134	
Election Work	\$	<u>145</u>	12,767
Interest Earned			<u>388</u>

Total Revenues			\$ 191,358
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The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
RONALD STEPHENS, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES,
AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	25,000	
Part Time Gross Salaries		20,678	
Other Gross Salaries		17,999	
Overtime Gross Salaries		1,792	\$ 65,469

Employee Benefits-

Employer's Share Social Security		10,023	
Employer's Share NonHazardous Duty Retirement		2,670	
Employer's Share Hazardous Duty Retirement		29,324	42,017

Contracted Services

Advertising			973
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Office Materials and Supplies			1,200
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Other Charges-

Dues		352	
Postage		238	
Expense Allowance		914	
Fiscal Court Filing Fees		1,840	
Telephone		1,909	
Bond		508	
Carrying Concealed Deadly Weapon Permits		2,350	
Miscellaneous		524	
Uniform		860	
Unemployment Insurance	\$	852	10,347

Capital Outlay

Office Equipment			1,553
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Total Expenditures			121,559
Net Revenues			69,799
Less: Statutory Maximum			68,733
Excess Fees Due County for 2008			1,066
Payments to Fiscal Court - January 14, 2009			1,066
Balance Due Fiscal Court	\$		0

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
RONALD STEPHENS, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

The Sheriff follows the guidance of the *Audit Guide For County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, which does not require a management discussion and analysis or budgetary comparison information.

ELLIOTT COUNTY
RONALD STEPHENS, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

ELLIOTT COUNTY
RONALD STEPHENS, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 3. Deposits

The Elliott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the Elliott County Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, the Elliott County Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement.

Note 4. Lease

The office of the County Sheriff was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$45 for 60 months to be completed on February 2012. The Sheriff was in compliance with the terms of the agreement. The total remaining balance on the lease was \$1,053 as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Honorable Ronald Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards .

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Elliott County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated November 23, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

2008-1. Condition: The Sheriff's Office Lacks Adequate Segregation of Duties

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards* (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's financial statement for the year ended December 31, 2008 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Governmental Auditing Standards* and which is described in the accompanying comments and recommendations as item 2008-2.

This report is intended solely for the information and use of management, the Elliott County Fiscal Court, and the Department For Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

November 23, 2009

ELLIOTT COUNTY
RONALD STEPHENS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY, MATERIAL WEAKNESS:

2008-1. Condition: The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. All office staff collects receipts including the bookkeeper. The bookkeeper prepares daily checkouts and posts to the receipts ledger. The bookkeeper prepares the bank reconciliations and agrees bank balances to the ledgers. The Sheriff's bookkeeper prepares, posts and mails all checks for disbursements.

Criteria: Good internal controls dictate the same employee should not perform all aspects of a transaction.

Effect: Misappropriation of assets could occur and be undetected.

Cause: Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing adequate segregation of duties.

Recommendation: The Sheriff could strengthen controls by:

- Reviewing the deposit, and comparing it to the daily checkout sheet and receipts ledger.
- Mailing Disbursements.

These procedures could be documented by the Sheriff initialing the checkout sheet, receipts ledger, or deposit slip.

Sheriff Ronnie Stephens' Response: None.

NONCOMPLIANCE:

2008-2. Condition: The Elliott County Fiscal Court Did Not Set The Maximum Salary Amount For The Sheriff's Office

Criteria: According to KRS 64.530, in the case of officers compensated from fees, or partly from fees and partly by salary, the fiscal court shall fix the maximum compensation that any officer, except the officers named in KRS 64.535(i.e., county judge/executives, county clerks, jailers operating full-service jails, and sheriffs), may receive from both sources. The fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant.

Effect: It cannot be determined if the Elliott County Sheriff's Department received salaries within the limitations of the fiscal court.

ELLIOTT COUNTY
RONALD STEPHENS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

Cause: The Elliott County Fiscal Court's lack of oversight regarding KRS 64.530.

Recommendation: We recommend that the Elliott County Fiscal Court set the maximum salary amount for the Sheriff's Office in the future.

Sheriff Ronnie Stephens' Response: None.